RED OWL STORES INC.

Annual Report

for period ended February 28, 1959

Concentration *on bigger supermarkets in heavy population centers marked Red Owl's expansion program. New supermarkets were opened in Michigan, Wisconsin, Minnesota and North Dakota . . . with a total of 11 grand openings.*

Contents

**Red Owl Stores, Inc.
and Subsidiaries**

Highlights

	Fiscal Year Ended Feb. 28, 1959	Mar. 1, 1958*	Percentage Increase
Retail sales	$165,661,828	144,890,532	14.3%
Wholesale sales	33,882,695	31,539,222	7.4
Total	$199,544,523	176,429,754	13.1
Earnings			
Before taxes on income	4,758,393	4,436,386	7.3
Net earnings for year	2,195,393	2,064,386	6.3
Reinvested in business	1,259,015	1,210,485	4.0
Earned per share common	3.40	3.38	.6
Number of common shares outstanding	645,996	610,891	5.7
Dividends per share	1.50	1.40	7.1
Net working capital	12,643,980	12,605,985	.3
Ratio of current assets to current liabilities	2.19 to 1	2.31 to 1	
Book value per share common	25.31	22.89	

**Previously reported figures for the fiscal year ended March 1, 1958 have been restated on a consolidated basis.*

To Our Shareholders and Employees:

The year ended February 28, 1959 was marked by new records in sales and earnings and a highly successful entry into Milwaukee with five Red Owl supermarkets.

Sales climbed more than 13% to $199,544,523. Average annual sales per retail store continued to rise, reflecting our program of concentrating expansion in urban centers which are heavily populated.

Consolidated net earnings increased to a new high of $2,195,393 from $2,064,386 a year earlier. Per share earnings amounted to $3.40 on the 645,996 shares outstanding at the year-end. This compares with per share earnings of $3.38 in the preceding year on 610,891 shares then outstanding. The increase in the number of shares is due principally to the conversion of subordinated debentures.

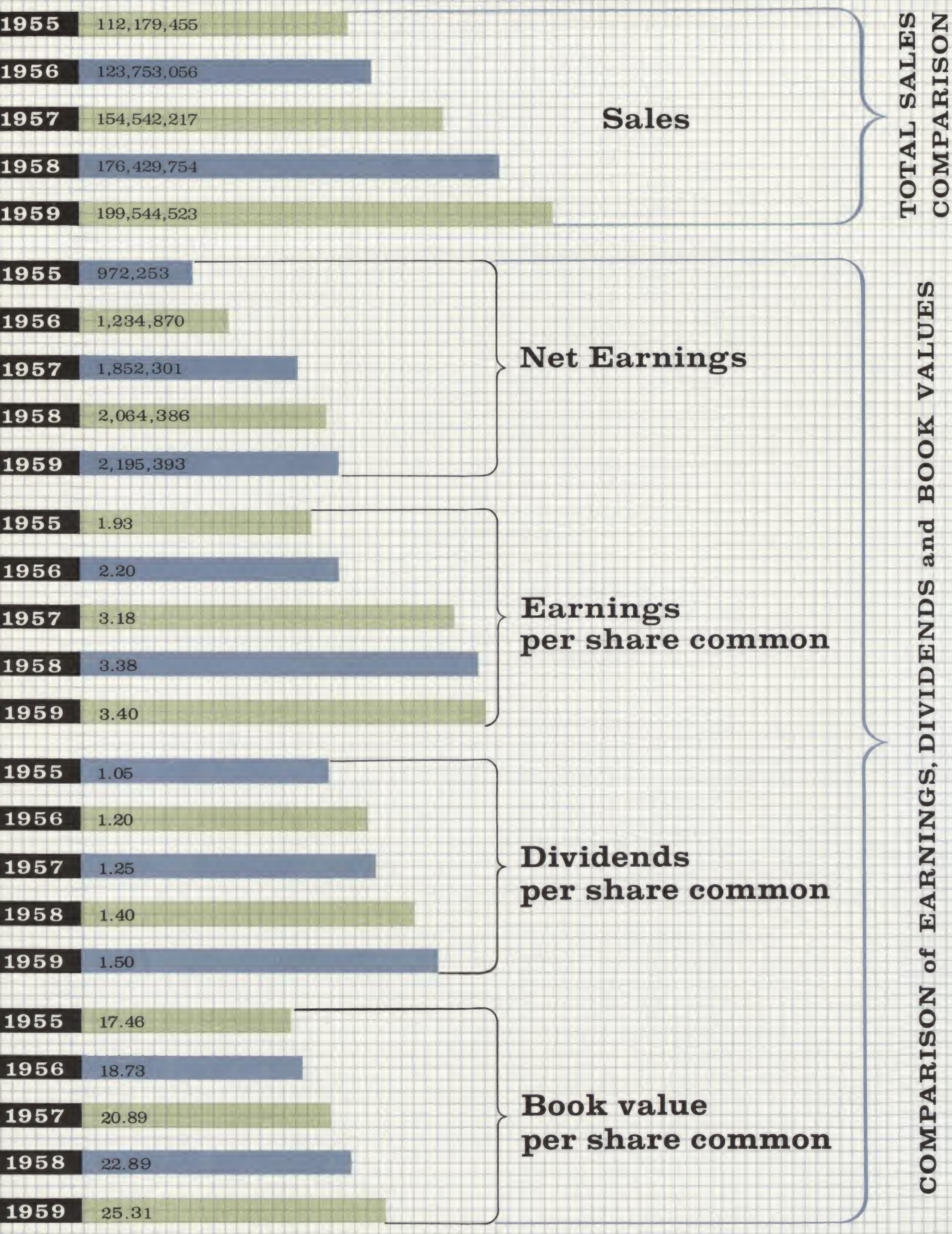
While the year's operating results were close to expectations, several factors had an adverse effect on earnings. These included a labor stoppage in the Minneapolis area in August and the substantial costs of opening five new supermarkets in the Milwaukee metropolitan area. The sales level of these stores has been most gratifying to date.

The quarterly dividend rate was increased from 35 cents to 40 cents per share in November, bringing payments for the year to $1.50 per share. This was the fifth consecutive year in which dividend payments were higher per share of stock. Shareholders received dividends totaling $936,378 or 43% of the year's net earnings.

During the year, eleven supermarkets were opened and a fruit and vegetable warehouse was added to the Fargo plant. In the coming year emphasis will be placed on further expansion in Milwaukee and in the Twin Cities. Plans are being formulated for the introduction of Red Owl supermarkets in the Chicago market when suitable locations can be acquired. We are confident that our operating methods and policies will enable us to achieve the same degree of success in Chicago as we have experienced in Milwaukee and other metropolitan centers. As we indicated in an earlier report, sufficient capital is available for the large-scale expansion program scheduled for the year ahead.

On behalf of management, we wish to express our appreciation to our shareholders and employees for their cooperation and support throughout the year.

CHAIRMAN OF THE BOARD *PRESIDENT*


TOTAL SALES COMPARISON
Sales
1955 112,179,455
1956 123,753,056
1957 154,542,217
1958 176,429,754
1959 199,544,523
COMPARISON of EARNINGS, DIVIDENDS and BOOK VALUES
Net Earnings
1955 972,253
1956 1,234,870
1957 1,852,301
1958 2,064,386
1959 2,195,393
Earnings per share common
1955 1.93
1956 2.20
1957 3.18
1958 3.38
1959 3.40
Dividends per share common
1955 1.05
1956 1.20
1957 1.25
1958 1.40
1959 1.50
Book value per share common
1955 17.46
1956 18.73
1957 20.89
1958 22.89
1959 25.31

Review of the Year's Operations

The financial statements, historical figures, and review of the year's operations are presented on a fully consolidated basis. With the organization and acquisition of two trading stamp subsidiaries it was deemed advisable to combine the parent company's activities with all wholly-owned subsidiaries including the realty holding company. It is to be noted, however, that the long term debt of Hopkins Realty Company is not an obligation of the parent company.

Sales Near $200,000,000 Level

Sales increased more than 13% to a new high of $199,544,523 compared with sales of $176,429,754 in the preceding year. Retail sales were up 14.3% and wholesale sales increased 7.4%.

Earnings set record

Consolidated earnings before taxes set an all-time record of $4,758,393 against $4,436,386 in the previous year.

Consolidated net earnings after taxes amounted to $2,195,393 compared with $2,064,386 a year earlier. Earnings were equal to $3.40 per share based on the 645,996 shares outstanding at February 28, 1959. The previous year's per share earnings were $3.38 computed on the 610,891 shares then outstanding.

During the year the number of shares outstanding increased by 35,105, of which 31,740 were accounted for by the conversion of debentures and 3,365 by the exercise of stock options.

A warehouse and transportation labor dispute involving the entire industry in Minneapolis seriously disrupted operations during August. The three weeks' warehouse work stoppage resulted in the closing of all of the company's retail stores in Minneapolis, and abnormal costs were incurred in furnishing merchandise to those points normally serviced by the Hopkins plant.

In order to secure a strong foothold for the new supermarkets in Milwaukee, management provided an extraordinary promotional and advertising budget for these stores. Although this had a significant impact on profits for the year, sales volume has exceeded expectations by a wide margin. Red Owl has been established as an important factor in the Milwaukee market and has laid a solid foundation for future expansion in that city.

Dividend rate increased

The dividend rate on the common stock was raised to 40 cents per share, or an annual rate of $1.60, beginning with the November 15 payment. Total payments last year amounted to $1.50 per share compared with $1.40 in the preceding year. Cash dividends have been paid on the common stock each year since 1933.

Greater Milwaukee. *"Big League" city of over a million people, promises to play a big part in the company's future growth.*

Financial Position Strong

Net working capital at the close of the year was $12,643,980. The ratio of current assets to current liabilities was 2.2 to 1.

Inventories amounted to $14,266,520, an increase of $1,737,464 over a year ago. Inventories at year-end were equal to 7.2% of the year's sales, while inventories at the close of the previous year amounted to 7.1% of that year's sales.

Arrangements have been made to further postpone the closing date to September, 1959 for the remaining $800,000 portion of the $3,000,000 of notes sold in fiscal 1958. These funds will not be required until later and this postponement results in considerable savings in interest costs. At February 28, 1959 approximately $1,000,000 of excess funds was invested in short-term commercial paper.

Capital invested in new fixtures, equipment and improvements was approximately $3,000,000, the same as in the preceding year.

Typical overflow crowd *that characterized openings of five large supermarkets in the thriving Milwaukee area.*

Milwaukee Highlights Expansion

A new and important market has been opened to the company with the construction of five large supermarkets in Milwaukee averaging about 20,000 square feet of floor space. Consumer acceptance of these stores has been outstanding and has established a strong foothold for future growth.

Other store openings included two in the Twin City metropolitan area and one each in Duluth, Minnesota; Hancock, Michigan; and Menasha, Wisconsin. A replacement store was opened in Williston, North Dakota.

Three marginal stores were closed while eleven were converted to Agency accounts. The current year's program, therefore, resulted in a net reduction in number of units from 152 to 148. The Company's policy of modernizing and improving customer facilities continued in existing units where added investment was warranted.

Since embarking on its aggressive supermarket expansion program five years ago, Red Owl has opened or relocated 77 new units. Thus, more than half the company's present 148 units are relatively new. Average annual sales per retail store amounted to $1,119,000 compared with $953,000 in the preceding year, and double the amount five years ago. Most of the larger supermarkets of the size and type currently being developed produce in excess of $2,000,000 annual sales on the average.

To keep pace with supermarket expansion, a new 14,000 square foot fruit and vegetable warehouse, including frozen food facilities, was constructed adjacent to the Fargo plant. The new structure will provide better service to Red Owl stores supplied from this location.

Check-out procedures *are carefully explained. All employees receive thorough training before starting on the job.*

Good community relations are another important factor in the success of Red Owl stores. Thus, employees are encouraged to take an active part in local civic and community affairs. We are proud to report that, for the fourth consecutive year, a Red Owl store manager has been selected a national winner of a Good Citizenship Award by the National Association of Food Chains.

Personnel Development

The rapid growth of Red Owl has made it necessary to maintain a fast pace of evaluating and developing qualified personnel for management duties. The success of this program is reflected in the fact that key positions are constantly being filled from within the organization.

Training in present positions and development for future promotions are being conducted at all levels. An important phase of the training program is the instruction of new employees on Red Owl policies and methods to insure continuance of high operating standards.

Management Development seminars are conducted regularly for key people at the home office. Executives have received assignments intended to broaden their knowledge of over-all company operation. Participation in clinics and special courses of study in marketing, merchandising, supervision and human relations have been arranged on an individual basis. Professional counsel has been used in the evaluation of executive potential.

Employee Benefits

A comprehensive study was concluded during the year to determine if employee benefit plans meet the conditions and requirements of today.

The contributory group insurance plan is now in process of revision to furnish greater employee protection.

The non-contributory pension plan will be amended early in the coming year to provide added past service credits for salaried personnel. Actuarial studies were made in an attempt to correct as far as practical the effects of inflation on group annuity benefits.

Training seminars *assist in building the kind of personnel increasingly required by the company's rapid growth.*

Three New Directors Elected

At the annual meeting of shareholders on May 13, three new Directors were elected. They are Merrill M. Cohen, President of J. M. Dain & Co., Inc.; Donald G. McNeely, Vice President of St. Paul Terminal Warehouse Company; and Lawrence W. Rixe, Vice President and Treasurer of Red Owl Stores, Inc.

Vernon J. Winter was promoted to Vice President in charge of Warehousing, Transportation and Manufacturing on the same date.

Agency Division Grows

The marked improvement in sales and the sound return on invested capital of the Agency Division resulted in management's decision to expand these operations. Many opportunities exist in the company's trade area for developing new high-volume wholesale accounts. In addition to short-term credit arrangements extended to all Agency operators for purchases, Red Owl finances fixtures in many instances.

Trading Stamp Program Improved

Red Owl has established its own trading stamp programs to service those areas where S & H stamps are not utilized. This will provide the company with a maximum of merchandising flexibility and will assure customers of the finest redemption privileges. The F-M Stamp Company, which became wholly-owned during the year, services stores in the Fargo-Moorhead area. The Three Star Company plan was organized recently to serve many other points in the Company's trade area.

New Ideas and Products

Red Owl again expanded its line of non-food products, particularly soft goods, but the company's principal interest continues to be development of its food operations. Though nationally advertised food products dominate the Company's merchandising plans, several additional important Red Owl label products were developed the past year, including frozen meat and poultry pies, and detergents. Experiments with various types of company-manufactured prepared foods have proved successful and these items are now carried by many of the larger supermarkets. In the near future Red Owl will centrally prepackage certain luncheon meat and cheese products, thereby assuring better quality and service.

The Company contemplates the installation of electronic accounting equipment and personnel will be trained during the current year in the use of this modern system of data processing.

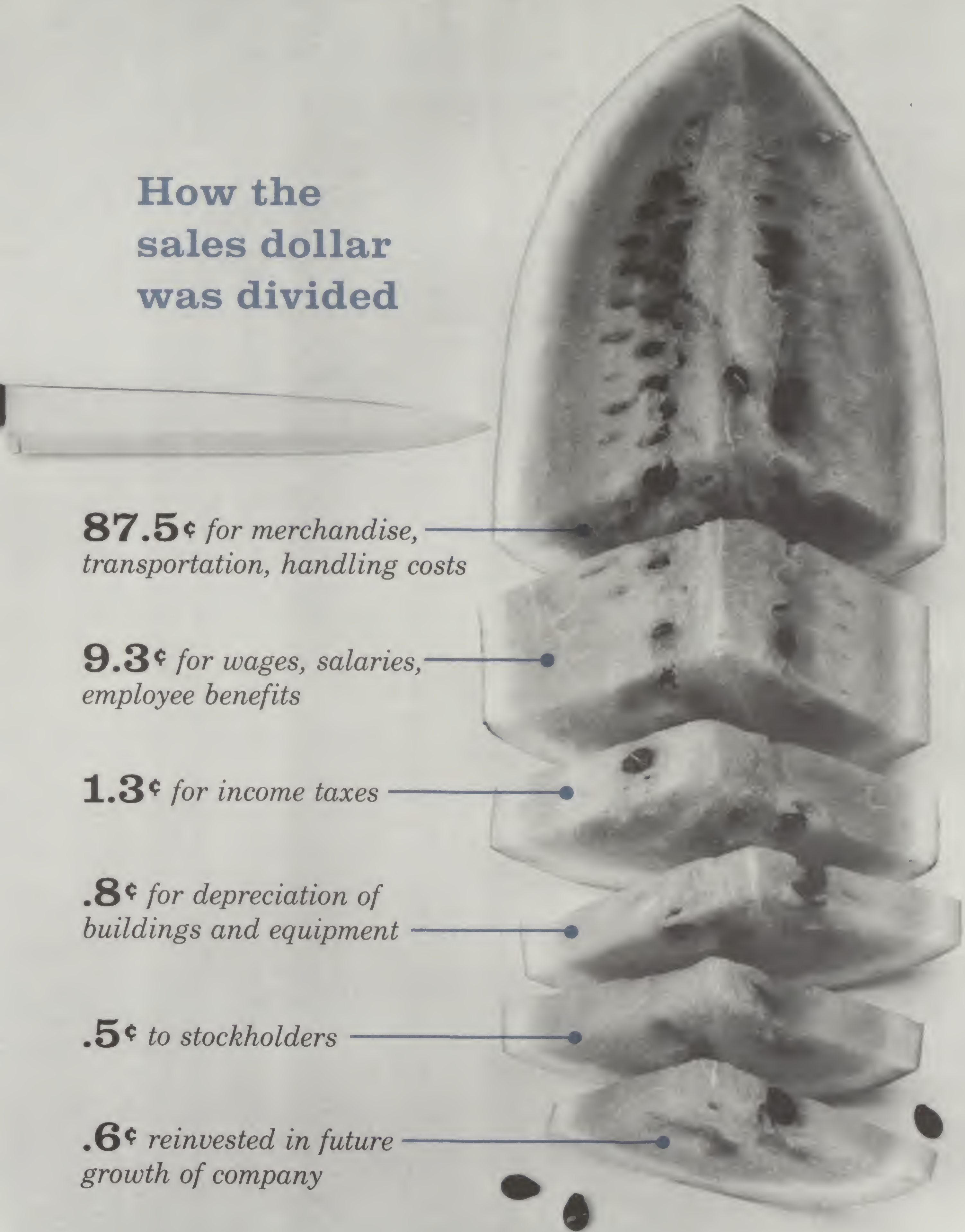
"DELIBAR" *is a profitable new operation in larger metropolitan areas where the demand for take-home foods is great.*

Fargo Warehouse addition. *New 14,000 ft. addition is designed to serve Red Owl's Northern Division.*

Hopkins Realty Company

Hopkins Realty Company, a wholly-owned real estate subsidiary, is engaged in the construction or acquisition of stores and warehouses and leasing them to Red Owl. During the past year the realty company did not develop and lease added store properties. Its properties have been financed by the sale of mortgage bonds secured by the properties and the assignment of Red Owl's leases to the purchaser of the bonds. Red Owl does not guarantee the obligations of its subsidiary.

How the sales dollar was divided



87.5¢ *for merchandise, transportation, handling costs*

9.3¢ *for wages, salaries, employee benefits*

1.3¢ *for income taxes*

.8¢ *for depreciation of buildings and equipment*

.5¢ *to stockholders*

.6¢ *reinvested in future growth of company*

LOOKING AHEAD

Early in March, 1959, an industry-wide labor dispute again resulted in the closing of supermarkets in Minneapolis. Though the stores reopened in the latter part of the month, full effect on sales and earnings has not yet been determined.

From all indications the food industry has a favorable outlook for the coming year. However, competition is becoming more intense and aggressive. Red Owl is therefore continuing its search for improved methods, new products and added services to attract new customers and to maintain its position of leadership.

Expansion plans for the year ahead call for the construction of seventeen supermarkets, depending on location development and construction progress. Emphasis will be placed on further expansion in the Twin Cities and following up the initial success in Milwaukee with additional units.

Of special significance is the company's intention of entering the Chicago market as soon as possible. A comprehensive location survey of the Chicago metropolitan area has been in progress for some time.

Red Owl Stores, Inc. and Subsidiaries

Consolidated Statement of Operations and Retained Earnings

Year ended February 28, 1959 (with comparative figures for the previous year)

	YEAR ENDED FEB. 28, 1959			YEAR ENDED MAR. 1, 1958
	Retail	*Wholesale*	*Combined*	*Combined*
Net sales	$165,661,828	33,882,695	199,544,523	176,429,754
Cost of goods sold, including warehousing and transportation expenses (note 2)	134,856,250	32,023,506	166,879,756	147,867,142
Gross profit on sales	$ 30,805,578	1,859,189	32,664,767	28,562,612
Selling, general and administrative and other operating expenses (note 2)			27,482,886	23,815,321
Operating earnings			5,181,881	4,747,291
Other income:				
Gain on sales of property and equipment			119,162	—
Miscellaneous			57,335	73,748
			176,497	73,748
			5,358,378	4,821,039
Other deductions:				
Interest (on long-term debt			541,078	275,747
(other			7,794	60,217
Loss on sales of property and equipment			—	4,385
Miscellaneous			51,113	44,304
			599,985	384,653
Earnings before taxes on income			4,758,393	4,436,386
Federal and State taxes on income, estimated			2,563,000	2,372,000
Net earnings			2,195,393	2,064,386
Deduct dividends on Red Owl Stores, Inc. common stock—$1.50 and $1.40 per share in respective years			936,378	853,901
			1,259,015	1,210,485
Retained earnings at beginning of year—unappropriated			8,254,136	7,043,651
Retained earnings at end of year:				
Unappropriated (note 6)			9,513,151	8,254,136
Appropriated for possible future inventory losses			285,000	285,000
Total at end of year			$ 9,798,151	8,539,136

See accompanying notes to financial statements.

Red Owl Stores, Inc. and Subsidiaries
Consolidated Balance Sheet

February 28, 1959 (with comparative figures for the previous year)

Assets

	FEB. 28, 1959	MAR. 1, 1958
Current assets:		
Cash	$ 5,539,646	7,147,086
Marketable securities, at cost and accrued interest (approximate market)	996,228	—
Receivables:		
Customers	1,200,135	988,389
Equity in installment contracts sold (uncollected balances of accounts sold to banks $99,592 and $180,552 in respective years)	20,564	49,286
Due from vendors, claims, etc.	455,130	592,085
	1,675,829	1,629,760
Less allowance for doubtful receivables	79,885	79,885
	1,595,944	1,549,875
Merchandise inventories, at lower of cost (first-in, first-out) or market	14,266,520	12,529,056
Prepaid expenses	447,988	501,054
Properties subsequently sold or in process of sale (with agreements to lease back)	401,818	510,870
Total current assets	23,248,144	22,237,941
Cash surrender value of life insurance	75,641	68,879
Property, plant and equipment, at cost less depreciation and amortization (note 2)	14,128,956	13,195,035
Other assets	501,791	395,067
	$37,954,532	35,896,922

Liabilities

	FEB. 28, 1959	MAR. 1, 1958
Current liabilities:		
Current installments of long-term debt	$ 461,700	461,700
Drafts and accounts payable	6,403,626	5,856,115
Accrued expenses	2,148,504	1,569,724
Federal and State taxes on income, estimated	1,590,334	1,744,417
Total current liabilities	10,604,164	9,631,956
Provision for deferred income taxes (note 2)	617,579	377,746
Long-term debt, less current installments included above (note 3):		
Red Owl Stores, Inc.	6,442,000	7,740,000
Hopkins Realty Company	3,939,925	4,161,625
	10,381,925	11,901,625
Stockholders' equity:		
Preferred stock—par value $100 per share Authorized 50,000 shares; none outstanding	—	—
Common stock—par value $3 per share Authorized 1,250,000 shares; issued and outstanding at respective dates 645,996 and 610,891 shares (note 4)	1,937,988	1,832,673
Additional amounts paid in by stockholders (note 5)	4,614,725	3,613,786
Retained earnings, per accompanying statement	9,798,151	8,539,136
	16,350,864	13,985,595
Long-term lease commitments (note 7)		
	$37,954,532	35,896,922

See accompanying notes to financial statements.

Notes to Financial Statements

Note 1. *The accompanying financial statements* include the accounts of Red Owl Stores, Inc. and all active subsidiaries, including a wholly-owned realty holding company and two wholly-owned trading stamp companies, one not previously consolidated and the other organized during the fiscal year.

Note 2. *Property, plant and equipment*, at cost less depreciation and amortization at February 28, 1959, is summarized as follows:

Land	$ 435,018
Buildings	4,583,731
Furniture, fixtures and equipment	11,406,303
Automotive equipment	2,084,403
	18,509,455
Less depreciation	5,886,798
	12,622,657
Leasehold improvements, at cost less amortization	1,224,772
Store construction in progress and store properties held for sale	281,527
	$14,128,956

Depreciation and amortization expenses included in costs and expenses amounted to $1,549,404 in 1959 and $1,224,378 in 1958. Depreciation charges against earnings have been computed by the straight-line method. For income tax purposes, however, depreciation on certain buildings and on fixtures and equipment acquired since January 1, 1954 has been computed by one of the accelerated methods of depreciation permitted by the Internal Revenue Code. Provision has been made for the deferred income tax liability applicable to the excess of depreciation being claimed for tax purposes over the amounts charged against earnings.

Note 3. *Long-term debt*, less installments due within one year and cash held by trustee for current redemptions, at February 28, 1959, is summarized as follows:

	RED OWL STORES, INC.	HOPKINS REALTY COMPANY
3⅞% notes payable due July 1, 1966	$1,800,000	—
5½% promissory notes due October 1, 1972	2,200,000	—
4¾% convertible subordinated debentures due February 1, 1978	2,442,000	—
Sinking fund mortgage bonds:		
4% due June 1, 1969, Series A	—	622,500
4¼% due March 1, 1970, Series B	—	309,000
4½% due December 1, 1975, Series C	—	1,422,500
4¾% due December 1, 1977, Series D	—	594,425
4¾% due December 1, 1982, Series E	—	991,500
	$6,442,000	3,939,925

The time for closing an additional $800,000 loan in accordance with the agreement relating to the 5½% promissory notes has been extended to May, 1959 and arrangements are being made for further extension to September, 1959.

Aggregate annual maturities and required sinking fund redemptions of notes and bonds outstanding (consolidated) will amount to approximately $465,000 a year through fiscal year 1961, approximately $615,000 a year from 1962 through 1965 and varying annual amounts from 1966 through 1982. Annual maturities and sinking fund redemptions of Red Owl Stores, Inc. (only) will amount to $240,000 a year through fiscal year 1961, $390,000 a year through 1965 and varying annual amounts through 1975.

Terms of the 3⅞% note, the 5½% promissory note, and the 4¾% debenture agreements provide, among other things, for prepayment of the long-term debt at the option of the Company at varying premiums. Until October 1, 1967, however, no prepayment of the 5½% notes may be made for the purpose of refunding indebtedness at lower interest rates.

Series A through E sinking fund mortgage bonds issued or assumed by the wholly-owned realty subsidiary are secured by the Company's principal warehouse property and certain store properties and the subsidiary's interest in leases made by the subsidiary to the Company covering the warehouse and store properties.

Note 4. *Of the authorized common stock*, 73,260 shares are reserved for issuance upon conversion of the 4¾% convertible subordinated debentures and 33,895 shares are reserved for issuance upon exercise of options granted or grantable under the Employees' Stock Option Plan.

Stock options to purchase 12,335 shares of common stock granted in fiscal year 1956, 1,600 shares in 1957 and 11,875 shares in 1959 at prices ranging from $24.00 to $54.75 per share were held by certain executive employees at February 28, 1959. The aggregate option price of the 25,810 shares under option amounted to $843,390, an average of $32.68 per share, as compared with an aggregate market value at dates of grant of $877,800, an average of $34.01 per share.

Options for 5,735 shares were exercisable at February 28, 1959. During the fiscal year, options were exercised for 3,365 shares of common stock at an aggregate option price of $81,260, an average of $24.15 per share, as compared with an aggregate market value at dates options were exercised of $174,698.

Options under the Employees' Stock Option Plan are granted at not less than 95% of the fair market value of the stock at dates granted and become exercisable over a period of five years commencing one year after dates granted. All options expire, subject to earlier expiration in the event of termination of employment, if not exercised within six years of the dates granted.

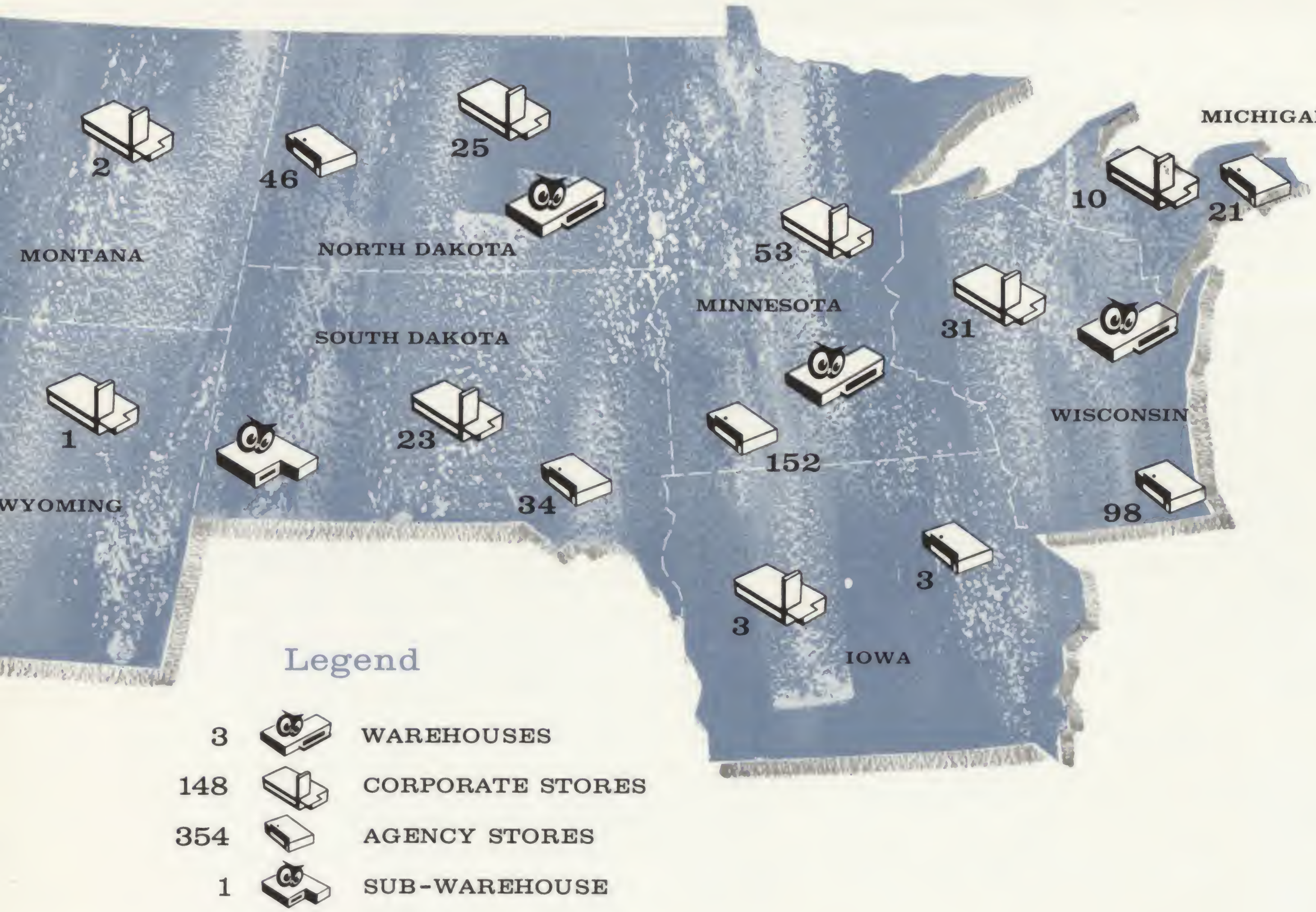
Note 5. *Additional amounts paid in by stockholders* during the year amounting to $1,000,939 include the excess, $71,165, of amounts paid in over par value of 3,365 shares of common stock issued upon exercise of employees' stock purchase options, and the excess, $962,780, of conversion price over par value of 31,740 shares of common stock issued on conversion of 4¾% convertible subordinated debentures, less applicable portion, $33,006, of unamortized expenses of issuing the debentures.

Note 6. *Restrictions on payment of dividends* (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by the terms of agreements relating to the 3⅞% notes, the 5½% promissory notes and the 4¾% debentures. Retained earnings at February 28, 1959 free from restrictions, based on working capital and retained earnings requirements under the most restrictive of the agreements, amount to approximately $1,850,000.

Note 7. *Long-term leases*, excluding leases to the Company by the realty holding subsidiary, expiring more than three years after February 28, 1959, establish minimum annual rentals on 111 stores and two warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance and maintenance costs payable by the Company, amount to $1,941,000. Of this amount, leases with minimum annual rentals of $266,000 expire within five years and leases with minimum annual rentals of $1,675,000 have terms extending from five to twenty years from that date.

In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of fifteen to twenty years at minimum annual rentals which will aggregate approximately $106,000.

The Company also guarantees payment of minimum annual rentals aggregating approximately $34,000 under the terms of long-term lease agreements entered into by certain agency store owners.



Red Owl Facilities Map

In 1922, a single store in Rochester, Minnesota represented the entire Red Owl operations.

The ensuing thirty-seven years have seen a dynamic expansion until today 502 Red Owl corporate and agency stores serve customers and communities in eight states.

Facilities include warehouses located at Hopkins, Minnesota, Fargo, North Dakota, Green Bay, Wisconsin, and a sub-warehouse at Rapid City, South Dakota.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

The Board of Directors
Red Owl Stores, Inc.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and subsidiaries as of February 28, 1959 and the related statement of operations and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of operations and retained earnings present fairly the financial position of Red Owl Stores, Inc. and subsidiaries at February 28, 1959 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co

Minneapolis, Minnesota
April 17, 1959

Red Owl Stores, Inc. and Subsidiaries
Ten year record of growth

FISCAL YEAR ENDED IN	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950
(000's omitted)										
Sales Retail	$ 165,662	$144,891	$124,293	$95,074	$80,801	$77,064	$67,345	$65,341	$55,359	$50,822
Wholesale	33,882	31,539	30,249	28,679	31,378	29,723	27,744	24,493	22,762	18,874
Total Sales	199,544	176,430	154,542	123,753	112,179	106,787	95,089	89,834	78,121	69,696
(000's omitted)										
Earnings before Taxes on Income	3,758	4,436	4,021	2,553	2,047	1,430	1,586	1,720	2,158	1,776
Net earnings for year	2,195	2,064	1,852	1,235	972	680	746	732	1,046	1,057
Dividends paid on Preferred Stock	—	—	83	112	21	24	42	56	68	71
Net earnings applicable to common equity	2,195	2,064	1,769	1,123	951	656	704	677	978	986
Dividends paid on common stock	986	853	664	598	507	459	432	413	355	195
Net earnings for year retained in business	1,259	1,210	1,105	525	390	197	272	264	623	791
Net earnings per share common	3.40	3.38	3.18	2.20	1.93	1.43	1.54	1.65	2.41	2.52
Dividends per share common	1.50	1.40	1.25	1.20	1.05	1.00	1.00	1.00	.90	.50
(000's omitted)										
Current Assets	23,248	22,238	16,657	15,405	13,485	11,523	10,882	10,464	8,981	6,969
Current Liabilities	10,604	9,632	8,906	6,872	5,430	5,101	4,405	3,991	4,715	2,637
Net Working Capital	12,644	12,606	7,751	8,533	8,055	6,422	6,477	6,473	4,266	4,332
Stockholders' Equity	16,351	13,986	12,738	11,604	11,078	8,311	8,114	7,844	7,381	6,958
Ratio of current assets to current liabilities	2.19 to 1	2.31 to 1	1.87 to 1	2.24 to 1	2.48 to 1	2.28 to 1	2.47 to 1	2.62 to 1	1.90 to 1	2.64 to 1
Book value per share common	25.31	22.89	20.89	18.73	17.46	16.94	16.51	15.98	15.30	13.70
Shares outstanding										
Preferred	—	—	9,500	18,850	25,000	4,934	5,239	11,471	12,898	15,000
Common	645,995	610,891	561,861	513,901	483,151	459,590	457,688	414,884	405,154	390,620
Number of common shareholders	3,627	3,228	2,399	2,291	2,161	1,998	1,777	1,370	1,336	1,065
Number of stores at close of year										
Retail	148	152	146	143	145	151	162	179	181	189
Agency	354	376	419	504	556	551	582	559	546	536
Average sales per retail location	1,119,000	953,000	851,000	665,000	557,000	510,000	415,000	365,000	306,000	269,000
Number of employees (including part time)	5,600	5,300	4,600	3,900	3,400	3,300	3,200	3,100	2,700	2,400

Directors

(1) FORD BELL, Chairman of the Board of Directors, and Chief Executive Officer, Red Owl Stores, Inc.

(2) ALF L. BERGERUD, President, Red Owl Stores, Inc.

(3) MERRILL M. COHEN, President, J. M. Dain & Co., of Minneapolis

(6) JOHN C. CORNELIUS, Senior Consultant and Director, Batten, Barton, Durstine & Osborn, Inc.

(10) GLENN R. GRIFF, Vice Chairman of the Board, Red Owl Stores, Inc.

(8) RICHARD L. KOZELKA, Dean, School of Business Administration, University of Minnesota

(4) GOODRICH LOWRY, President, Northwest Bancorporation of Minneapolis

(9) PIERRE H. McDOWELL, President, Howalt-McDowell, Inc., Sioux Falls, South Dakota

(5) DONALD G. McNEELY, Vice President, St. Paul Terminal Warehouse Company of St. Paul

(7) ERLING E. RICE, Vice President, Red Owl Stores, Inc.

(11) LAWRENCE W. RIXE, Vice President and Treasurer, Red Owl Stores, Inc.

Officers

FORD BELL, Chairman of the Board of Directors and Chief Executive Officer

ALF L. BERGERUD, President

GLENN R. GRIFF, Vice Chairman of the Board

WILLIAM J. QUINN, Vice President

ERLING E. RICE, Vice President

LAWRENCE W. RIXE, Vice President and Treasurer

JAMES A. WATSON, Vice President

VERNON J. WINTER, Vice President

JOSEPH T. SYDNESS, Secretary

F. D. SCOTT, Controller

MICHAEL J. McMAHON, Assistant Vice President

THOMAS R. PELLETT, Assistant Treasurer

ALVIN L. NORDSTROM, Assistant Secretary

NEIL A. RILEY, Assistant Secretary

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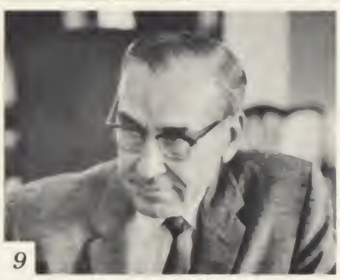

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For more information about the activities and policies of Red Owl stores, write to:

RED OWL STORES, INC., HOPKINS, MINNESOTA
Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minnesota. Mailing Address: Post Office Box 329, Minneapolis 40, Minnesota. Stock Transfer Agent: Northwestern National Bank of Minneapolis. Auditors: Peat, Marwick, Mitchell & Co.